



**MCI Telecommunications  
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JUN - 1 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

June 1, 1998

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Magalie Roman Salas  
Secretary  
Federal Communications Commission  
Washington DC 20554

Re: Universal Service Reform, CC Docket No. 96-45; Price Cap Performance Review,  
CC Docket No. 94-1; Access Charge Reform, CC Docket No. 96-262; Tariffs  
Implementing Access Charge Reform, CC Docket No. 97-250

Dear Ms. Salas:

On May 29, 1998, Don Sussman and I met with Kevin Martin of Commissioner Harold  
Furchgott-Roth's office to discuss issues in the above-captioned dockets. Attached is  
the presentation that we used for our meeting.

Sincerely,

Mary L. Brown

CC: Kevin Martin

027  
cc: Kevin Martin  
RE



**Implementation of Access Reform and  
Universal Service Orders - 2H98  
May 27, 1998**

# Outstanding Issues

- **Universal Service**
  - Establishment of Contribution Factors - 2H98
  - Possible Flat Fee for Collection of Some/All Universal Service
  - MCI Declaratory Ruling on Collection of Universal Service
- **Access Charges**
  - Price Cap Reductions
  - Calculation of Access Flow Through
  - Emergency Petition to Establish Workable System/Tariff Investigation
  - Treatment of PICCs - 2H98

# **Universal Service - 2H98**

## **Contributions**

- **Timing**

- MCI must file tariff on June 1, 1998 in order to implement new level of changes in July bills.
- MCI will begin its recovery of USF from residential customers after foregoing \$107 M in 1H98
- MCI will assume full funding of S&L and RHC

- **Notice**

- June 8 is last opportunity for change in Mass Market invoices in July
- MCI was not able to give notice in June bills because FCC has not set contribution factors
- MCI has never received notice from ILECs on the amount of USF it is being charged (subject of Emergency Petition)

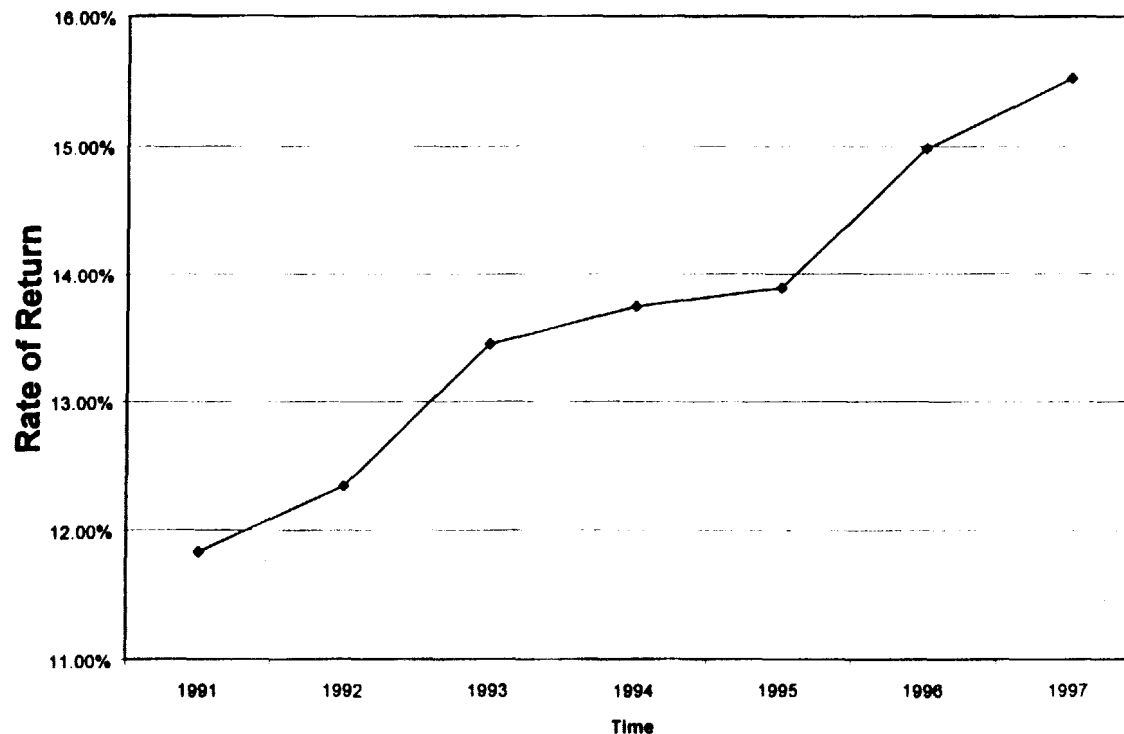
# **By June 1, Resolve MCI Declaratory Ruling on Permissible USF Collection Methods**

- **FCC, Not States, Should Interpret USF Order**
  - Florida: Show Cause Order Issued, June 8 MCI files Reply
  - Virginia: MCI filed motion for summary judgment May 22nd; VA SCC will file their opposition May 29th; MCI reply June 2nd
- **MCI Is Assessed on Total Revenue, Should Be Able to Assess Customers on Total Revenue**
- **IXCs Deserve Uniform Ruling Applied Uniformly**
  - Problem grows in July

# True Access “Reform” Needed -- Rates Unreasonably High

**FCC Should Establish Productivity Factor of At Least 8.5%, Reinitialized to 1995, Yielding About \$1.8 Billion**

**Price Cap Carrier Interstate Earnings**



# Market-Based Access Reform Is A Myth -- No Downward Pressure on Rates

<b>RBOC</b>	<b>Total Lines</b>	<b>Unbundled Network Elements</b>	<b>CLEC Market Share</b>
<b>AIT</b>	<b>20,612,210</b>	<b>68,134</b>	<b>0.33%</b>
<b>BEL</b>	<b>33,396,306</b>	<b>32,431</b>	<b>0.10%</b>
<b>BLS</b>	<b>23,153,182</b>	<b>8,448</b>	<b>0.04%</b>
<b>GTE</b>	<b>17,750,056</b>	<b>387</b>	<b>0.00%</b>
<b>SBC</b>	<b>33,487,936</b>	<b>13,940</b>	<b>0.04%</b>
<b>USW</b>	<b>16,121,235</b>	<b>340</b>	<b>0.00%</b>
<b>TOTAL</b>	<b>144,520,925</b>	<b>123,680</b>	<b>0.09%</b>

# **Productivity Factor Should Increase to At Least 8.5%**

- **Interstate-Only Productivity**
  - Reflects lower cost/min of interstate traffic (interstate more concentrated than local)
  - Fulfills Section 201 legal requirement that FCC set interstate prices on interstate costs
  - Higher, 8.5% factor based on experience & new data
    - 1997 Earnings at record 15.6%
    - ILEC pricing at cap
- **Failure To Go Back to 1995**
  - Suppresses LD demand, harming IXC's
  - Leaves access too high, harming LD rate payers...with no offsetting benefits
  - Gives ILECs time value of money
- **August Implementation Possible**



# **Access Charges -- Calculation of Access Flow Through**

- **FCC Declares LD Industry Fully Competitive in 1995**
- **Interstate Prices Have Dropped Faster Than Access**

“We see nothing to indicate that market forces will not compel IXC's to flow through access charge reductions”

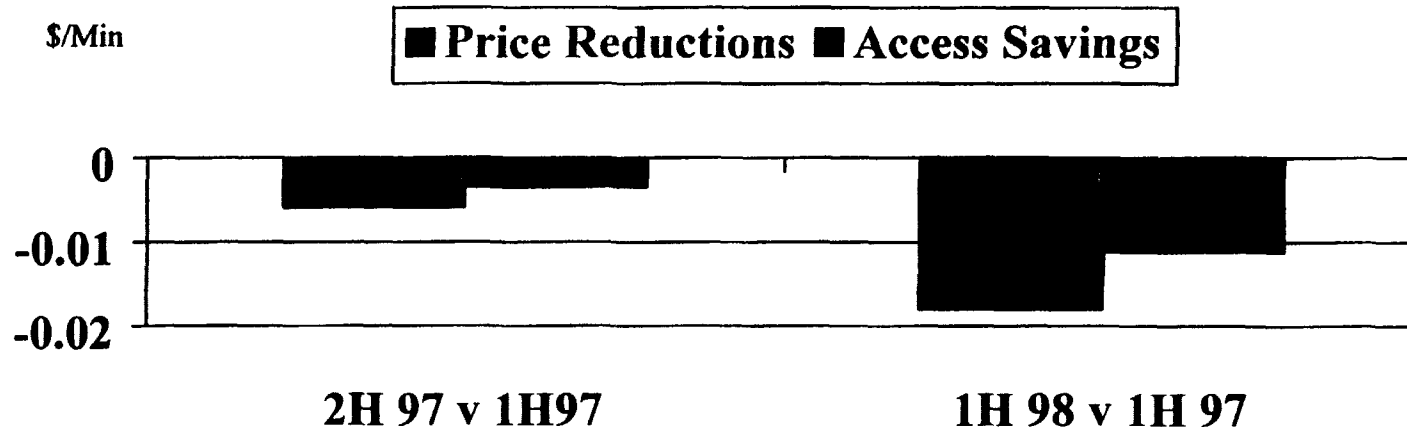
Price Cap Fourth Report & Order, May 7, 1997, Para 185

- **Proposed Data Collection Requests Revenue or Cost Data in 21 Categories**
  - Burdensome -- will cost millions to implement
  - Re-regulates LD Pricing
  - Fundamentally unfair to judge past actions by new rules
  - Quarterly reporting misunderstands and misrepresents retail environment.
  - Actual costs recaptures deficiency gains --even price caps for ILECs does not do this

# MCI Passed Through Access Charge Reductions to End Users

## Actions:

- \$.05 on Sunday
  - New Product
  - 20% Cash Back for SB
  - Customer Migration to Lower Rate Products
  - Contract renegotiations
- |                        |              |
|------------------------|--------------|
| Access Savings         | (\$756M)     |
| Total Price Reductions | <u>1,223</u> |
| Extra Customer Savings | \$467        |



# **FCC Must Rule on Issues Raised in MCI's Emergency Petition**

- **Eliminate distinctions between primary and non-primary lines, or immediately prescribe a standardized, independently verifiable, definition of primary and non-primary;**
- **Hold the ILECs responsible for collection of PICC until such time as they can provide all necessary information to IXCs in advance of billing;**
- **Require the ILECs to provide auditable line count information, by telephone number, immediately;**
- **Standardize the date used by ILECs to decide which customers' PICCs are assigned to a particular IXC;**
- **Require ILECs to provide to each IXC the amount of USF pass through each IXC is receiving in its access bills every month.**

# **After Analyzing PICC Invoices Received, Over Half of Billings are Incomplete or Inaccurate**

- **46% (\$20.9M) of Invoice Charges Based on Missing or Incomplete LEC Information**
- **\$1.8M of Complete Invoices Contain Incorrect Billing (MCI has Commissioned Independent Test Via Price Waterhouse)**
- **\$1.4M In Discrepancies Found Between LEC Invoiced Data and MCI Customer Information**



- **MCI Is Withholding \$24M in PICC Payments Until End-To-End Audit Performed**
- **FCC Must act Immediately to Resolve PICC Implementation Flaws**

## **6-Month Suspension of PICCs Would Be Misguided**

- **\$1.8b Shift To CCL Means Per Minute Access Rates Will Increase**
- **LD Rates Would have to be Raised, Wreaking Havoc With Consumers And Marketing**
  - MCI would incur unnecessary, substantial costs